Exploitation and Economic Justice in the Liberal Capitalist State

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To

1968

When it was practically impossible not to become politically aware
regardless of one's interests and inclinations

Preface

I have been thinking about the issues addressed in this book for many years, but my work on it did not begin in earnest until the financial crisis hit in the summer of 2008. I had been lucky enough to be awarded a faculty fellowship at the Edmund J. Safra Center for Ethics at Harvard University that was set to start the following fall, and my intention was to use the first few months of that fellowship to finish up what I thought would be a short paper on exploitation before getting down to working on the project I planned on devoting most of my fellowship to developing. That short paper turned into a long paper, then a very long paper, then a short book, and eventually into the rather longish book you now have before you. I cannot express my gratitude to the Safra Center enough for providing me such a stimulating and supportive place to develop these ideas. My special thanks go to Arthur Applbaum, then director of the Center, for helping to create and to maintain such an incredibly hospitable scholarly environment, and to Elaine Scarry, senior scholar in residence at the Center while I was there, for providing such an admirable example of how intellectual ideas can be made practical and devoted to matters of real public importance. Thanks also to my fellow fellows: Anne Barnhill, Ulrike Heuer, Tanina Rostain, and Alex Voorhoeve for their helpful criticisms of early versions of the book and for their continuous good-fellowship and encouragement.

In addition to presenting early versions of many of the arguments of the book to those at the Safra Center, I was also privileged to be able to make presentations to and receive feedback from a number of other groups and institutions, including the Harvard Department of Government Political Theory Colloquium, the Manchester Center for Political Theory, the University of Stirling Workshop on Human Rights, the American Association for Political Theory, and the University of Manchester Political Theory Workshop on Exploitation. My thanks to the organizers of these events for inviting me to present my work and to all those in attendance for their comments and suggestions.

A number of individuals have gone out of their way to provide me with feedback on my work and therefore deserve special recognition. F. M. (Mike) Scherer read an early version of the manuscript and commented extensively on it in writing, and very kindly helped me find my way through what was then for me some unfamiliar territory in economics. Ian Steedman read a later version of the manuscript and helped me catch many errors in my economics, although despite Ian's best efforts I'm afraid some of these errors may embarrassingly remain. Hillel Steiner read the entire manuscript not once, but twice, providing me with detailed written comments that were both thoughtful and thought-provoking on each occasion, and he also spent many, many hours discussing my ideas with me and helping me to see where they needed further development and defense. Michael Davis also read the entire manuscript twice and provided me with two complete sets of extremely important written comments—one at a key developmental stage and another when the manuscript was further along. Jon Quong provided me with very helpful written comments at an early stage, Avia Pasternak did the same at a later stage, and Roberto Veneziani provided a final critique of some of my arguments in economics. Finally, Raymond Plant provided me with an extensive set of written comments at a later stage in the manuscript's development that I can only characterize as inspirational. I am also grateful and indebted to Norman Geras for discussing Marx with me, and to Simon Mohun for sharing some of his work on profit rates with me. Others who contributed to my thinking on these issues in significant ways include Kimberley Brownlee, Nick Charles, Rowan Cruft, Celina Davidson, Harriet Davidson, Antony Duff, Greg Feirman, Eve Garrard, John Henry, Eric Kaufman, Erin Kelly, Saara Koikkalainen, Matt Kramer, Mark Kramer, Joe Lertola, Harry Lesser, Sandra Marshall, Joseph Mazor, Lionel McPherson, David Miller, Onora O'Neill, James Pattison, Tom Porter, Adina Preda, Michael Rosen, Frank Stephen, Zosia Stemplowska, Peter Vallentyne, Qiao Wang, and Stephen de Wijze.

Thanks also to Dominic Byatt, an editor's editor, who guided the manuscript deftly through the review and publication process, and to three anonymous reviewers for Oxford University Press, each of whom made many helpful comments and suggestions. As a result of their assistance, the book you have before you is much better than the manuscript that they were sent.

My final thanks go to my wife Della Davidson, whose loving support and encouragement I was lucky enough to enjoy for twenty-seven years. Her faith in me and her enthusiasm for my work never faded, even when she was forced to embark on a merciless battle with breast cancer during the last year of the book's creation. I could not have written this book without her. I miss her very, very much.

Manchester, England and Sacramento, California
August, 2012

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Introduction

In *The General Theory of Employment, Interest, and Money*, considered even by its critics to be one of the most important and influential works in modern economics, John Maynard Keynes said, "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."[1] A great deal has been written about the latter of these problems; about the former, not so much. The reason for this is that there is an important difference between the two faults that Keynes identified. The unemployment problem is almost universally seen as a technical, economic problem. By this I mean that even though there is some debate over how close to full employment an economy should strive to be, almost everyone recognizes that unemployment should be kept relatively low; the only question seems to be how we should go about achieving this, and perhaps what sacrifices we should be prepared to make along the way. The problem of economic inequality, in contrast, raises much more controversial issues. The problem is not just how we should go about eliminating economic inequality, should that be what we decide to do, but whether we should decide to do this in the first place, for there seems to be strong moral and economic arguments both for and against interfering with the existing distribution of wealth and income. The problem of economic inequality is accordingly not typically seen as a merely technical, economic problem; it is seen as a moral and political problem, and a very important one at that. Indeed, along with maintaining international peace and security, addressing the problem of economic inequality and the variety of derivative problems that economic inequality seems to create is seen as something that every polity must do in the course of managing its members' social life.

Despite the huge amount of time and philosophical energy that a large and seemingly ever-increasing number of political philosophers have been

[1] John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (San Diego: Harvest/Harcourt edition, 1964), ch. 24, p. 372.

devoting to the issue of economic inequality, however, (or, if one were being cynical, one might say because of this), no one theory of economic justice has emerged as the focus of an overlapping consensus—that is, as the kind of theory that a variety of different comprehensive moral, religious, and political views could each embrace. Instead, a number of different approaches have been developed that have captured different segments of the popular imagination and have also claimed different adherents among the academic, intellectual, and political elite. One such approach is classical libertarianism; another is Rawlsian prioritarianism; and another is luck egalitarianism. I shall describe what each of the views entails in detail in a moment, but for now, the only point I want to make is that each expresses a different view toward economic inequality and whether and to what extent it may be justified. Each of these theories, in turn, has several versions, and there are many other competing theories too.

The attitude these theories express toward economic inequality, however, is not the only point on which the theories differ. In the course of constructing an attitude toward economic inequality, every theory of economic justice must also take account of and express some attitude toward the underlying economic system prevailing in the society in which the problem of inequality happens to arise. In the case of each of the theories I have mentioned, this economic system happens to be capitalism, and each of our competing theories of economic justice has its own idiosyncratic relationship with that system. Libertarianism claims to be the political counterpart of capitalism. Rawlsian prioritarianism, it seems fair to say, sees itself as a critic of capitalism, or at least a critic of *unbridled* capitalism, which other political liberals sometimes refer to as *cowboy* capitalism, the kind of capitalism that remains unmediated by anti-discrimination, consumer protection, environmental, occupational safety, and minimum wage and maximum hour laws. And luck egalitarianism, which borrows certain attitudes from libertarianism but embraces many more moderate attitudes too, sees itself as lying somewhere in between, as capturing the intuitive idea behind libertarianism without giving up so many of the moderating effects that political liberalism otherwise makes available.

Of course, it is probably not correct to characterize any particular liberal capitalist state as wholly exemplifying any one of these attitudes; it is more correct to say that all three attitudes are present in every liberal capitalist state even though they are to some extent conflicting. As a result, every capitalist state is constantly being pulled first in one direction and then another, sometimes even pursuing policy initiatives that move in different directions at the same time. Because of this, and in any event because there is no real society in which one of these theories has overwhelmed the others and actually been implemented consistently and conscientiously in anything but the short term, it is impossible to tell whether any of these approaches can have the benefits in practice that they claim to have in theory. But that is irrelevant for our purposes. All that matters is that so far and for whatever reason, none of these theories of economic justice has proved to be an effective tool for reducing economic inequality. And this is true despite the fact that all of these theories have at least some redistributive aspirations, or at least some anticipated and desired redistributive side effects. In other words, all are liberal egalitarian theories in some sense, for all find some distributions unjust and try to provide a principle for sorting those that are just from those that are not. Rawlsians find inequality unjust unless a lesser inequality would make the least advantaged even worse off; luck egalitarians find inequalities unjust if they stem from luck but not if they stem from choice; all libertarians find inequalities unjust if they arise from violations of the principle of just initial acquisition or the principle of just transfer, and almost all holdings are the proceeds of violations of one of those principles; and left libertarians find inequalities additionally unjust if they result from the uncompensated appropriation of what were in fact jointly owned natural resources. I'll say more about each of these theories later; the only point I want to make now is that under all of these theories, it would seem that there should be a whole lot of redistribution going on, and the fact that there is not should be troubling to everybody. This should be even more troubling when we consider that back in 1936, after Keynes and the Great Depression had focused our attention on these matters but before any of these contemporary theories had been fully articulated and achieved at least some recognition and success, we *did* manage to reduce economic inequality. Indeed, there was some and perhaps even some substantial improvement in each of the areas of Keynes's concern in the immediate aftermath of World War II, with both unemployment and inequality dropping substantially and then remaining relatively stable until about 1970.[2]

Since 1970, however, and especially since the early 1980s, by which time prioritarianism, luck egalitarianism, and right and left libertarianism had each been well and truly introduced, economic inequality has been steadily and dramatically increasing, reaching levels now not seen since those that Keynes had before him in the 1930s.[3] For example, the share of total income enjoyed by those in the top 10 per cent of the income distribution in the United States increased from about 32 per cent in 1970 to 43 per cent in 2002, to 50 per cent

[2] See Thomas Piketty and Emmanuel Saez, "Income and Wage Inequality in the United States, 1913–2002," in *Top Incomes over the Twentieth Century*, ed. A. B. Atkinson and T. Piketty (Oxford: Oxford University Press, 2006), 141–225.

[3] See Piketty and Saez, "Income and Wage Inequality in the United States;" A. B. Atkinson, *The Changing Distribution of Earnings in OECD Countries* (Oxford: Oxford University Press, 2008), 405–8; Louis Uchitelle, "The Richest of the Rich, Proud of a New Gilded Age," *The New York Times* (July 15, 2007); Paul Krugman, "Gilded Once More," *The New York Times* (April 27, 2007).

in 2007, a share they had not enjoyed since 1928, just before the Great Depression.[4] Even within this group, economic inequality was increasing. The gains of the top 10 per cent were mostly the gains of the top 1 per cent, and most of their gains, in turn, were gains of the top 0.1 per cent, and so on up to the top 0.01 per cent, a group consisting now of approximately 15,617 US families.[5] For every additional dollar earned by the bottom 90 per cent from 1950 to 1970, those in the top 0.01 per cent earned "only" an additional \$162.[6] For every additional dollar earned by the bottom 90 per cent from 1990 to 2002, in contrast, those in the top 0.01 per cent earned an additional \$18,000.[7] In 1970, the top 0.01 per cent of all taxpayers had just 0.7 per cent of total income.[8] By 1998, the top 0.01 per cent had 3 per cent of total income, a gain of 428 per cent.[9] And by 2007, the share enjoyed by the top 0.01 per cent—those with incomes *over* \$11.5 million a year—had increased to over 6 per cent of total income, a gain of 857 per cent from 1970.[10] In 1970, those in the top 0.01 per cent were earning 50 times more than the average worker; but by 2002, they were earning 300 times more than the average worker, a level of inequality not seen since 1915.[11] And while that number may have dropped slightly as a result of the Great Recession, it is still at near record levels and is already heading back to its pre-recession highs.

[4] See Piketty and Saez, "Income and Wage Inequality in the United States," 147; and Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States" (Update with 2007 estimates) (August 5, 2009), available at <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2007.pdf>.

[5] For a discussion of the relative gains of the top 1 per cent, see Congressional Budget Office, *Trends in the Distribution of Household Income between 1979 and 2007,* Publication No. 4031 (October 2011). For a discussion of the relative gains of groups *within* the top 1 per cent, see Piketty and Saez, supra, the Saez update, Lawrence Mishel and Josh Bivens, "Occupy Wall Streeters are Right about Skewed Economic Rewards in the United States," *Economic Policy Institute* (Briefing Paper No. 331, October 26, 2011), and Tom Dickinson, "How the GOP became the Party of the Rich," *Rolling Stone* (November 24, 2011).

[6] See David Cay Johnston, "Richest are Leaving Even the Rich Far Behind," *The New York Times* (June 5, 2005).

[7] See David Cay Johnston, "Richest are Leaving Even the Rich Far Behind."

[8] See Paul Krugman, "For Richer," *The New York Times Magazine* (October 20, 2002); Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913–1998," *Quarterly Journal of Economics* 118 (2003): 1–39.

[9] See Krugman, "For Richer." See also Thomas Piketty and Emmanuel Saez, "The Evolution of Top Incomes: A Historical and International Perspective," *American Economic Review* 6:2 (2006): 200–5, at 202.

[10] See David Cay Johnston, *Free Lunch: How the Wealthiest Americans Enrich Themselves at Government Expense (and Stick You with the Bill)* (New York: Penguin Books, 2007), 272–82, at 274; Uchitelle, "The Richest of the Rich, Proud of a New Gilded Age;" Saez, "Striking it Richer: The Evolution of Top Incomes in the United States" (Update with 2007 estimates) and Saez, "Striking it Richer: The Evolution of Top Incomes in the United Sates" (Update with 2009 and 2010 estimates) (March 2, 2012), available at <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2010.pdf>.

[11] See Piketty and Seaz, "Income and Wage Inequality in the United States," 148. See also Lawrence Mishel and Natalie Sabadish, "CEO Pay and the Top 1%: How Executive Compensation and Financial Sector Pay Have Fueled Income Inequality," *Economic Policy Institute* Issue Brief #331 (May 2, 2012) (CEO compensation increased 725 per cent from 1978 to 2011 while compensation for the typical worker increased a meager 5.7 per cent over the same period).

At the same time, the poverty rate has been moving up—in 2008, it hit 13.2 per cent, the highest it has been in the United States in twelve years, and median family income fell, wiping out even the minimal gains that median family income had enjoyed over the previous three years.[12] While 65 per cent of American families lived in middle class neighborhoods in 1970, by 2010 that number had dropped to 44 per cent, with a corresponding rise in the number of neighborhoods peopled primarily by either the affluent or the poor.[13] Indeed, by 2010, the number of people living in poverty in the United States hit 46.2 million, the highest level in the fifty-two years the Census Bureau has been tracking such numbers,[14] and those living in "near" poverty—those with incomes just 50 per cent above the poverty line—accounted for another 51 million people, which means that by 2010, 100 million Americans—that is, *one in three*—were either living in poverty or in the fretful zone just above it.[15]

Most disturbingly, while those at almost every level of the income distribution have suffered and have continued to suffer economic reversals as a result of the financial collapse of 2008, those at the top of the income distribution have largely fully recovered their losses and some have even exceeded their prior hyper-privileged positions. Between June 2009, when the Great Recession officially ended, and June 2011, inflation-adjusted median household income fell 6.7 per cent, outpacing the fall that occurred during the period

[12] See Erik Eckholm, "Last Year's Poverty Rate Was Highest in Twelve Years: Median Family Income Fell," *The New York Times* (September 11, 2009). See also Carmen DeNevas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60–238, *Income, Poverty, and Health Insurance Coverage in the United States: 2009* (Washington: US Government Printing Office, September 2010).

[13] See Sean F. Reardon and Kendra Bischoff, "Growth in the Residential Segregation of Families by Income, 1970–2009," *US2010 Project* (Russell Sage Foundation/Brown University, November 2011).

[14] See Sabrina Tavernise, "Soaring Poverty Casts Spotlight on 'Lost Decade'," *The New York Times* (September 13, 2011). An even more recent Census Bureau report using an alternative and supposedly more accurate methodology puts the number at 49.1 million. See Census Bureau, *The Research Supplemental Poverty Measure: 2010* (Washington: US Government Printing Office, November 2011), 5. And even this number woefully undercounts those who are living in poverty. First, because it still arguably underestimates the amount of money required to live a minimally decent life (it effectively defines poverty as subsistence plus a little bit, in other words, as only slightly more than one would have to receive under current law if one were a domestic pet), and second, because it expressly includes as income direct government assistance received, such as food stamps, housing assistance, home energy assistance, and the like. In other words, there are 49.1 million people currently living in poverty in the United States *despite* receiving government assistance. Surely the more relevant number for purposes of determining income inequality is the number of people who would be living in poverty *without* government assistance.

[15] See Jason DeParle, Robert Gebeloff, and Sabrina Tavernise, "Older, Suburban, and Struggling, 'Near Poor' Startle the Census," *The New York Times* (November 18, 2011). Even those who consider themselves middle class are becoming increasingly dependent on government assistance. See Binyamin Appelbaum and Robert Gebeloff, "Even Critics of Safety Net Increasingly Depend on It," *The New York Times* (February 11, 2012).

of recession itself.[16] And we continue to endure levels of unemployment unheard of since the Great Depression. Yet those at the very top of the income distribution are once again receiving near record compensation.[17] Since the Great Recession ended, the top 1 per cent has captured an unprecedented 93 per cent of the total real income growth for the entire country.[18] The top 0.1 per cent of earners have collected roughly half of all capital gains.[19] Wall Street firms (independent companies and the securities trading arms of banks) have actually earned *more* since the end of the recession than they did from 2000 to 2008.[20] The investment bank Goldman Sachs and its employees, for example, are currently enjoying one of the richest periods in the bank's 140-year history, or at least they were until very recently.[21] And the average wage for those at the very top of the top of the income distribution—those making $50 million or more—actually *increased* from $91.2 million in 2008 to a staggering $518.8 million in 2009.[22] Indeed, by 2010 total executive pay for *all* S&P 500 companies (not just Wall Street firms) was almost back to where it had been before the crash.[23] If this does not make the disparity between those at the very top of the income distribution and everybody else clear enough,

[16] See Robert Pear, "Recession Officially Over, U.S. Incomes Kept Falling," *The New York Times* (October 8, 2011). Indeed, according to the Federal Reserve, by 2010 the 2008 economic crisis had left the median American family with no more wealth than it had in the early 1990s, wiping away two complete decades of gains. See Binyamin Appelbaum, "Family Net Worth Drops to Level of Early '90s, Fed Says," *The New York Times* (June 11, 2012); Jesse Brickler, et al., "Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin* 98:2 (Washington: Board of Governors of the Federal Reserve, June 2012).

[17] See Jacob S. Hacker and Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer—and Turned Its Back on the Middle Class* (New York: Simon & Schuster 2010), 1–8.

[18] See Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States" (Updated with 2009 and 2010 Estimates).

[19] See Matthew O'Brien, "The Rich vs. the Super Rich, in 2 Charts," *The Atlantic* (August 2012).

[20] See Zachary A. Goldfarb, "Wall Street's Resurgent Prosperity Frustrates Its Claims, and Obama's," *The Washington Post* (November 6, 2011).

[21] See Graham Bowley, "Return of Record Paydays: Goldman's Bonus Pool Puts It in a Public Relations Bind," *The New York Times* (October 16, 2009). See also "Pay at Goldman Rebounds," in Jenny Anderson, "As Goldman Thrives, Some Say an Ethos Had Faded," *The New York Times* (December 16, 2009) (showing 2009 compensation for executives at Goldman Sachs as being almost as high as it was just before the 2008 crash), and Susanne Craig, "Wall Street Gets Its Groove Back, and Big Pay, Too," *The New York Times* (November 4, 2010). Goldman did report a loss for the third quarter 2011, its first since the Great Recession and only its second since it went public in 1999, but it remains to be seen whether this is an indication of things to come or just a quarterly one-off and, in either case, whether it will have any effect on the compensation the firm pays its top executives. See Susanne Craig, "Goldman Sachs Reports $428 Million Loss," and "Goldman Loss Offers a Bad Omen for Wall Street," *The New York Times* (October 18, 2011); "Goldman Sachs Cuts a Little Deeper," *The New York Times* (June 4, 2012).

[22] See David Cay Johnston, "Scary New Wage Data," *Tax Notes* 129 (October 25, 2010): 481–4.

[23] See Gretchen Morgenson, "Paychecks as Big as Tajikistan," *The New York Times* (June 18, 2011). The figures here come from Jack T. Ciesielski, "S&P 500 Executive Pay: Bigger Than . . . Whatever You Think It Is," *The Analyst's Accounting Observer* 20:7 (May 23, 2011). This trend has continued into 2011 and 2012. See Natasha Singer, "In Executive Pay, a Rich Game of Thrones," *The New York Times* (April 7, 2012); Susanne Craig and Ben Protess, "A Bigger Paycheck on Wall Street," *The New York Times* (October 9, 2012).

however, consider this: a person who picks tomatoes today receives the same basic rate of pay he received thirty years ago—adjusted for inflation, his pay has actually decreased by half.[24] In contrast, the median pay for top executives at 200 of the biggest corporations went up 23 per cent from 2009 to 2010 alone.[25] We are experiencing a level of inequality last seen in the Gilded Age, and the worst economic downturn since the Great Depression, which is what followed the last Gilded Age (see Figure 1 for a comparison of the US historical data), is already bearing down upon us.[26]

This phenomenon, moreover, is not limited to the United States. The increase in economic inequality in the US has almost been matched by that of the United Kingdom, where "the richest 10 per cent of the population are now 100 times as wealthy as the poorest 10 per cent."[27] And in the UK, just as in the US, the increase in inequality is most pronounced at the very top. When Margaret Thatcher came to power in 1979, just under 6 per cent of the national income went to the top 1 per cent. That figure stood at 9 per cent a decade later and now has risen to over 13 per cent, which means that almost one eighth of the total income earned in the UK now goes to just a tiny portion of the population.[28] And just as in the US, even within this top 1 per cent, inequalities are enormous. According to a recent report by the High Pay Commission, the top 0.1 per cent in the UK consistently takes home a larger percentage of national income than in any other advanced country

[24] See Barry Estabrook, *Tomatoland* (Kansas City, MO: Andrews McMeel, 2011), xiv. Indeed, after adjusting for inflation, the median wage for all hourly workers was actually lower in 2011 than it was a decade earlier. See Michael Cooper, "Lost in Recession, Toll on Underemployed and Underpaid," *The New York Times* (June 18, 2012) (relying on data from Lawrence Mishel, et al., *The State of Working America*, 12th edition (Economic Policy Institute, 2012).

[25] See Pradnya Joshi, "We Knew They Got Raises, But This?" *The New York Times* (July 2, 2011). See also Josh Bivens, "CEOs Distance Themselves from the Average Worker," Economic Policy Institute (November 9, 2011) (<http://www.epi.org/publication/ceo-ratio-average-worker/>) (the compensation received by CEOs was 35 times greater than that received by the average worker in 1978, but is now 243 times greater, up from 185 times greater just a few years ago at the height of the Great Recession); Steven Rattner, "The Rich Get Even Richer," *The New York Times* (March 25, 2012) ("the bottom 99 per cent received a microscopic $80 increase in pay per person in 2010, after adjusting for inflation. The top 1 per cent . . . had an 11.6 per cent increase in income.").

[26] For a nice summary of the problems the US economy is now experiencing, see Associated Press, "Economic Recovery is Weakest Since World War II," *The New York Times* (August 15, 2012). For the same on Europe, see Jack Ewing, "For Europe's Economy, a Lost Decade Looms," *The New York Times* (August 16, 2012).

[27] Amelia Gentleman and Hélène Mulholland, "Unequal Britain: Richest 10 per cent are Now 100 Times Better Off than the Poorest," *The Guardian* (January 27, 2010).

[28] See Jonathan Freedland, "It May Be Beyond Passé—But We'll Have To Do Something About the Rich," *The Guardian* (November 23, 2005), 27. For more data on the rise of economic inequality in the UK, see A. B. Atkinson, "The Distribution of Top Incomes in the United Kingdom 1908–2000," in Atkinson and Piketty, *Top Incomes over the Twentieth Century*, 82–140; National Equality Panel, *An Anatomy of Economic Inequality in the UK* (Centre for Analysis of Social Exclusion, January 2010) especially at 30; Francis Jones, Daniel Annam, and Saef Shah, "The Distribution of Household Income 1977 to 2006/07," *Economic & Labour Market Review* 2 (2008): 18–31, 24.

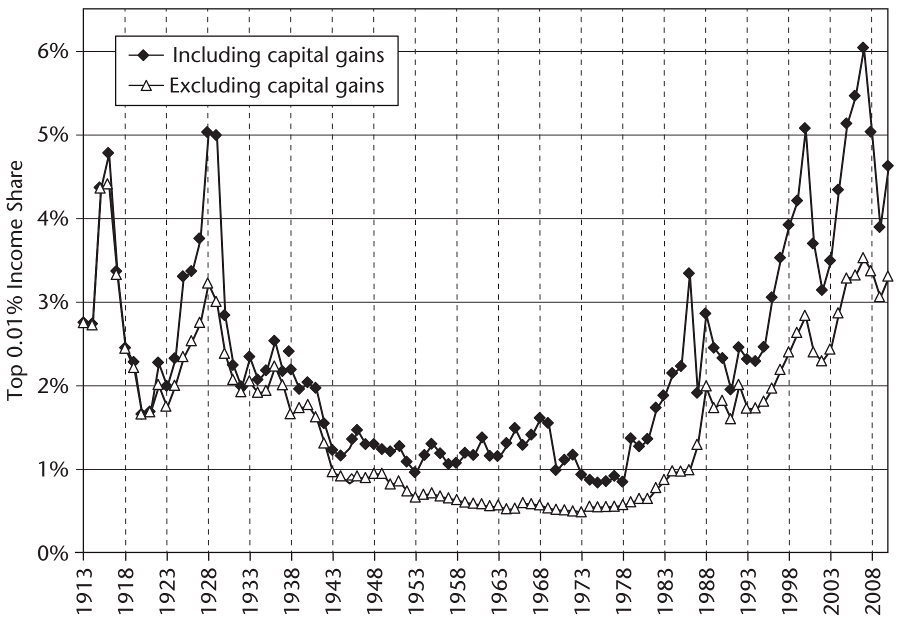

Figure 1. The Top 0.01 per cent Income Share, 1913–2010

Source: Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2009 and 2010 estimates)."

Note: Income is defined as market income including (or excluding) capital gains. In 2010, the top 0.01 per cent includes the 15,617 top families with annual income above $7,890,000.

except the US.[29] In 2010 alone, the richest 1000 individuals in the UK saw their wealth increase an average of £60 million *each*.[30] That was a 20 per cent gain, following a 25 per cent gain the previous year. In 1997, the top 0.01 per cent earned 60 times the average of the bottom 90 per cent. By 2007, this had risen to 95 times the average.[31] In 2010, the chief executives of the 100 largest companies on the London Stock Exchange earned an average of £4.2 million, an increase of 49 per cent over the prior year, while their employees enjoyed an average increase of only 2.7 per cent.[32] And in 2011, the number of people classified as homeless in England jumped 14 per cent, the biggest increase for nine years.[33]

[29] See High Pay Commission Final Report, *Cheques with Balances: Why Tackling High Pay is in the National Interest* (November 22, 2011), 74.

[30] See Michael Robinson, "The Wealth Gap—Inequality in Numbers," *BBC News*, BBC World Service (broadcast January 16, 2012).

[31] See Robinson, "The Wealth Gap."

[32] See High Pay Commission Final Report, 9.

[33] See Simon Rogers, "Homelessness Jumps by 14 per cent in a Year," *The Guardian* (March 8, 2012).

Similar increases in economic inequality have occurred in many other liberal capitalist countries too. Indeed, as James Kenneth Galbraith notes, "there is a strong global pattern to the movement of inequality, with a rise, quite independent of changes in national income, beginning in the early 1980s."[34] The increases in economic inequality occurring in other Anglo-Saxon economies—Canada, Australia, New Zealand, and Ireland—are similar to those being experienced in the UK.[35] And increases are not unique to the Anglo-Saxon world. In India, the shares of the top 1 per cent, 0.1 per cent, and 0.01 per cent, after shrinking from the 1950s to the mid 1980s, are now back up again almost to the level they were at in the 1920s and 1930s.[36] In Argentina, there was an increase in top income shares after the Great Depression, followed by a substantial decline in the populist Peronist years, but since the 1990s these have been steadily increasing, just as they have in Anglo-Saxon economies, and top income shares are now even higher in Argentina than they are in the US and the UK.[37] After peaking sometime in the 1950s, top income shares have been rising since the mid 1990s in Sweden, Finland, and Norway, and are now almost as high as or even higher than they were forty years ago.[38] Although originally founded with socialist ambitions, income inequality in Israel has increased dramatically over the last twenty years, and a small group of families now control some 30 per cent of the economy, giving Israel a greater concentration of wealth than even the US and the UK.[39] Income concentration was extremely high in Japan until World War II, then there was rapid de-concentration with concentration remaining low for the rest of the century, but in the last decade top shares began to increase again as the source of income for those at the top of the income distribution began to shift from capital to employment.[40] Top income shares

[34] James K. Galbraith, "Inequality, Unemployment, and Growth: New Measures for Old Controversies," *Journal of Economic Inequality* 7 (2009): 189–206, at 203. For a comprehensive summary of this trend, see A. B. Atkinson, Thomas Piketty, and Emmanuel Saez, "Top Incomes in the Long Run of History," in *Top Incomes: A Global Perspective*, ed. A. B. Atkinson and T. Piketty (Oxford: Oxford University Press, 2010), 664–760, at 666–7.

[35] See Atkinson, Piketty, and Saez, "Top Incomes in the Long Run of History," at 664–760 and 666–7.

[36] See Abhijt Banerjee and Thomas Piketty, "Top Indian Incomes, 1922–2000," in *Top Incomes: A Global Perspective*, 1–39.

[37] See Facundo Alverado, "The Rich in Argentina over the Twentieth Century," in *Top Incomes: A Global Perspective*, 253–98.

[38] See Jesper Roine and Daniel Waldenström, "Top Incomes in Sweden over the Twentieth Century," in *Top Incomes: A Global Perspective*, 299–370; M. Jäntti, M. Riihelä, R. Sullström, and M. Tuomala, "Trends in Top Income Shares in Finland," in *Top Incomes: A Global Perspective*, 371–447; R. Aaberge and A. B. Atkinson, "Top Incomes in Norway," in *Top Incomes: A Global Perspective*, 448–81.

[39] See Ethan Bronner, "Protests Force Israel to Confront Wealth Gap," *The New York Times* (August 11, 2011); Bank of Israel Annual Report 2010 (May 2011), ch. 8, pp. 311–17 ("the level of inequality in Israel is one of the highest among the developed countries").

[40] See Chiaki Moriguchi and Emmanuel Saez, "The Evolution of Income Concentration in Japan, 1886–2005," in *Top Incomes: A Global Perspective*, 76–170; Norimitsu Onishi, "Revival in

during the colonial period peaked in Singapore in 1951, then declined and remained relatively stable for about twenty-five years, but began to increase during the last ten years and are now higher than they have ever been.[41] Not surprisingly, economic inequality has also risen dramatically in countries like Russia, Hungary, and (to a somewhat lesser extent) the Czech Republic, countries that quickly transformed themselves into more or less liberal capitalist democracies after the fall of communism in 1989.[42] And finally, economic inequality has also been rising in countries like China that are not yet liberal capitalist democracies, but are beginning the transition to such an economic and political structure from one in which the government exercises much more central political and economic control.[43]

Now some people are fond of saying that what we and other nations are experiencing is simply an unusually rough although not unprecedented example of the inevitably bumpy ride produced by the natural business cycle. Things get better, economically, for a time, then they get worse, and sometimes a great deal worse, especially for large segments of the population, then they get better again, and sometimes a great deal better. We may be able to ameliorate the effects of these business cycles to some extent through careful monetary and fiscal policy, as Keynes argued we could and should. (Indeed, this is what Keynes meant when in response to the claim that economic growth would resume all by itself in the long run he said "in the long run we are all dead."[44]) But even with the most enlightened use of these economic tools, we cannot smooth out the business cycle entirely. The downtimes simply have to be endured, for this is the price we all must pay so that there are uptimes to be enjoyed.

But of course, some pay a much greater price than others. When inequality is high, those on the lower end of the income distribution have a much harder time surviving an economic trough than those on the upper end, simply because those with greater resources are in a better position to ride the rough patches out. Even when times are good, however, high inequality is bad for most of those in the income distribution. In the United States, for

Japan Brings Widening of Economic Gap: Egalitarianism is at Stake as Rich-Poor Division Threatens Mobility," *The New York Times* (April 16, 2006), 1.

41 A. B. Atkinson, "Top Incomes in a Rapidly Growing Economy: Singapore," in *Top Incomes: A Global Perspective*, 220–52.

42 See A. B. Atkinson, *The Changing Distribution of Earnings in OED Countries*, 172–84 (Czech Republic), 241–50 (Hungary); James K. Galbraith, Ludmila Krytynskaia, and Qifei Wang, "The Experience of Rising Inequality In Russia and China during the Transition," *European Journal of Comparative Economics* 1 (2004): 87–106.

43 See Galbraith, Krytynskaia, and Wang, "The Experience of Rising Inequality in Russia and China;" Thomas Piketty and Nancy Qian, "Income Inequality and Progressive Taxation in China and India, 1986–2005," in *Top Incomes: A Global Perspective*, 40–75; Thomas Pogge, "Growth and Inequality: Understanding Recent Trends and Political Choices," *Dissent* (Winter 2008).

44 John Maynard Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923), ch. 3, p. 80.

example, the median earner had to work 62.4 per cent more hours in 2000 than he did in 1970 merely to be able to afford to send his children to an average public school.[45] The most important factor in determining educational success (and therefore future success in the workplace) is now family income, with the gap between the standardized test scores of affluent and low-income students having grown by about 40 per cent since the 1960s, and the gap between affluent and low-income students in college completion having grown by about 50 per cent since the 1980s.[46] Higher economic inequality also means less economic mobility, for the more unequal a society, the more likely it is that its children will end up in the same economic class as their parents. People have less economic mobility in the US, for example, than in almost any other advanced nation, notwithstanding the popular "American Dream" to the contrary.[47] Increases in inequality are also often associated with declines in public health, and not just for the poor—rather, such declines seem to be spread throughout the entire income distribution.[48] A high degree of economic inequality also usually indicates a corresponding degree of inequality in political power, and a greater potential for corruption and polarization of the political process.[49] High levels of inequality can also lead to social unrest,[50] and even without social unrest, there is mounting evidence that high levels of inequality have a negative effect on economic growth.[51]

[45] See Robert H. Frank, "Gauging the Pain of the Middle Class," *The New York Times* (April 4, 2011).

[46] See Sean F. Reardon, "The Widening Academic Achievement Gap between the Rich and the Poor: New Evidence and Possible Explanations," in *Whither Opportunity? Rising Inequality, School, and Children's Life Chances*, ed. Greg J. Duncan and Richard J. Murnane (New York: Russell Sage Foundation, 2011), 91–116; Martha J. Bailey and Susan M. Dynarski, "Inequality in Postsecondary Education," in *Whither Opportunity?*, 117–32.

[47] See Alan B. Krueger, Chairman, Council of Economic Advisors, "The Rise and Consequences of Inequality on the United States," Speech to the Center for American Progress (January 12, 2012, <http://www.whitehouse.gov/sites/default/files/krueger_cap_speech_final_remarks.pdf>, as well as Jason DeParle, "Harder for Americans to Rise From Lower Rungs," *The New York Times* (January 12, 2012); and Jacob S. Hacker and Nate Loewentheil, *Prosperity Economics: Building an Economy for All* (Creative Commons, 2012), 10–11 and fig. F.

[48] See Anna Bernasek, "Income Inequality, and its Cost," *The New York Times* (June 25, 2007); Michael G. Marmot, "Status Syndrome," *Journal of the American Medical Association* 295 (2006): 1304–7; Michael Marmot, "Social Determinates of Health Inequalities," *The Lancet* 365 (2005): 1099–104.

[49] See John Rawls, *Justice as Fairness: A Restatement* (Cambridge, MA: Harvard University Press, 2001), 131; Paul Krugman, "Plutocracy, Paralysis, Perplexity," *The New York Times* (May 3, 2012).

[50] See Peter Osborne, "The Moral Decay of Our Society is As Bad At the Top As the Bottom," *Daily Telegraph* (August 11, 2011) (arguing that the recent spate of riots in various British cities arose in part out of the sense of selfishness and greed generated by current high levels of inequality in the UK); Eduardo Porter, "Inequality Undermines Democracy," *The New York Times* (March 20, 2012).

[51] See Andrew G. Berg and Jonathan D. Ostry, "Inequality and Unsustainable Growth: Two Sides of the Same Coin?" *IMF Staff Discussion Note* (April 8, 2011); Alberto Alesina and Dani Rodrik, "Distributive Politics and Economic Growth," *The Quarterly Journal of Economics* 109 (1994): 465–90; Jonathan Rauch, "Inequality and Its Perils," *National Journal* (September 28, 2012).

Increases in inequality can also lead to increases in unemployment.[52] And at the very least, increases in inequality mean that while the most frivolous wants of some are satiated, the most urgent needs of many go unfulfilled.[53] There are many other negative effects as well.[54] So regardless of whether the business cycle could be managed better if not totally controlled, it is a grievous fault of our economic system that economic inequality is currently so high and continues to be moving in the wrong direction. What Keynes said in 1936 could not ring more true today.[55]

It is this troubling state of affairs that I hope this book will help to remedy. But note that I will not be advocating a return to one of the settled liberal egalitarian theories of the past. On the contrary, what I intend to do is attempt to articulate and defend a new liberal egalitarian approach to economic inequality, one that is more resistant to being ignored or co-opted by the right, yet one that is also capable of being supported by a wide range of more comprehensive philosophical doctrines, not only of the left, but also of the right. The objective is to develop an approach to economic inequality for a liberal capitalist society, to show how principles that we all (or almost all) already embrace limit but do not prohibit economic inequality. And while this new liberal egalitarian theory of economic justice will require some and in some cases substantial reductions in the level of economic inequality currently obtaining in most liberal capitalist societies, it will also permit us to use the pursuit of profit as an incentive for increasing economic productivity and the economic development that such increased productivity creates.

[52] See James K. Galbraith, *Inequality and Instability* (New York: Oxford University Press, 2012), 291.

[53] See John Rawls, *Justice as Fairness*, sec. 39, p. 130.

[54] For a book length discussion of why inequality is bad for us, see Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger* (New York: Bloomsbury Press, 2009). See also Joseph E. Stiglitz, *The Price of Inequality* (New York: W. W. Norton & Co., 2012). Of course, many people argue that inequality is bad not only because it has bad effects, that is, because it is instrumentally bad, but also that it is bad in itself, that is, intrinsically bad. See Rawls, *Justice as Fairness*, 131–2. But I will leave this issue aside, for even if inequality is not intrinsically bad, it is still bad enough for it to be a moral imperative that we do something about it.

[55] Note that I have not described the increases in economic inequality that have taken place since 1980 by reference to changes in the Gini coefficient, one of the other standard methods that economists use to measure changes in inequality. This is because the Gini coefficient, which is expressed as a number between 0 (representing complete equality) and 1, is not as transparent and readily understandable an indicator as the actual income and wealth figures used in the text. But rest assured, if we were to look at changes in the Gini coefficient over the relevant period or at any other accepted measure of inequality for that matter, they would all reveal similar increases in inequality. See generally Congressional Budget Office, *Trends in the Distribution of Household Income between 1979 and 2007,* Publication No. 4031 (October 2011); A. B. Atkinson, "Measuring Top Incomes: Methodological Issues," in *Top Incomes*, 18–42, 19–20. On the Gini coefficient in particular, see Benjamin I. Page and Lawrence R. Jacobs, *Class War? What Americans Really Think about Economic Inequality* (Chicago: University of Chicago Press, 2009), 7 (Gini coefficient now at its highest level in sixty years). For further discussion of the Gini coefficient and various other methods for measuring inequality, see Frank A. Cowell, *Measuring Inequality*, 3rd edition (Oxford: Oxford University Press, 2011).

In short, the theory I will develop is intended to be both liberal and capitalist, and to show how those who see these two characteristics of many modern developed societies as contradictory are making a mistake.

This book is accordingly designed to be a work of political philosophy or, to be slightly more specific, of political economy. Because the latter term has been used in different ways, however, and in any event is poorly understood, I want to say something more about it here. I take political philosophy to be about the moral basis of social order—to concern what rights we have, both against each other and against our government, what roles we have in making social cooperation a successful enterprise rather than a destructive one, and how social conflicts are to be resolved when they inevitably occur.[56] I take political economy, in turn, to be a special part of political philosophy, the part that refers to how our economic relations should be organized and regulated. Political economy is economic in its subject matter because it focuses on issues such as unemployment and economic inequality, and sometimes in its method, but not in every case and most importantly not in this case. In other words, this book is not an exercise in formal economics designed to be accessible only to the specially-trained mathematically-savvy few who are already able to speak the very exclusive symbolic language that has become so popular now within contemporary economics. Indeed, this book has almost no formal economics in it. It is a book about economic *justice*, designed to be accessible to all those who are concerned about the moral status of our current economic relations and what we might do to put those relations right.[57]

While I shall focus most of my attention in this book on the problem of economic inequality, first with regard to income, and then with regard to wealth, I shall say something about unemployment too, for a concern for unemployment is often trotted out in an attempt to suppress a concern for inequality by those who contend that the solutions to these two problems are necessarily inconsistent. But I intend to resist this view. Following Keynes, I will argue that unemployment and inequality are connected, but not in the way that classical and neoclassical economists assume. Rather than increase unemployment under most conditions, reductions in inequality should increase a society's marginal propensity to consume. This, in turn, should increase the demand for goods, and the consequence of such increased

[56] Note also that I take the term "political philosophy" to be synonymous with "political theory" and use these terms interchangeably throughout.

[57] Remember also that the heavily mathematized nature of much current economic argument is a relatively recent development. The predominant method used by economists through the 1930s and 1940s is much closer to that still used today by analytic political philosophers such as John Rawls, Ronald Dworkin, and G. A. Cohen. See Alessandro Vercelli, *Methodological Foundations of Macroeconomics: Keynes & Lucas* (Cambridge: Cambridge University Press, 1991), 5 n. 5.

demand should be a *decrease* in unemployment. In other words, the views of the anti-Keynesians notwithstanding, there are good reasons to believe that we can have full or close to full employment *and* an equitable or at least less inequitable distribution of wealth and income in our society without compromising any of the fundamental principles of either economics or political morality that most of us already accept. Indeed, what I shall argue is that our failure to restrain the growth of economic inequality much less reverse it is in large part due to our failure to take the principles that we already accept seriously enough.

What these principles are, and what they logically require, I will begin discussing in a moment, but for now, I simply want to give a brief description of the most important policy implications of the theory of exploitation for which I will be arguing. First, using this theory, we can determine the morally permissible price of labor, and this has two important implications. One is that we are currently paying those at the bottom of the wage scale far too little; in order to correct this, and to prevent the continued exploitation of the most vulnerable members of our workforce, those who are unskilled, substantial increases in the minimum wage will be required. Indeed, the minimum wage must be sufficient not to only satisfy each worker's basic needs, but also to acknowledge the dignity of the worker's labor—to ensure that the worker has the means to feel that he is a full member of the society to which his work contributes, and not merely a servant to it.

This contention, I recognize, is both morally and economically controversial, and I will spend a great deal of time defending it, but in some ways, the second implication of coming up with a way of determining the morally permissible price of labor is even more controversial, for it is this: not only does justice require that we raise the existing minimum wage for unskilled labor, it also requires that we impose a *maximum* wage on those who have the privilege to be at the top of the income distribution, those who are members of top management of certain major corporations or traders or executives working in the financial industry. Simply put, those at the top are currently being paid far too much, much more than can be morally or economically justified, and one of the things I will do in this book is provide an explanation for why the imposition of certain limits on their compensation is morally required and how we can arrive at a principled calculation of what these limits are.

In addition to justifying the imposition of both maximum and minimum limits on the price of labor, the theory of exploitation I will argue for in this book also justifies the imposition of similar limits on the price of goods and services, limits that will still allow for the pursuit of very generous profits but which will not allow the pursuit of profits that are unreasonable or excessive, a distinction that I will go to some lengths later to define. Indeed, the limits for which I shall argue will largely track those currently in force under the antitrust laws of most liberal capitalist countries, but some aspects of the limits I will suggest here may be controversial even so. For one, I will argue that a certain portion of the receipts of highly profitable activities be redistributed to those who helped create them, not only to those at the very top, but to *all* workers, managers, suppliers, and service providers who contributed to these profits, according to the value of their respective contributions, an amount that the theory of exploitation I will develop and defend will allow us to define. For another, I will argue that at a certain point particular activities may become so profitable that the pursuit of even greater profits must not be allowed. While these claims will no doubt provoke a strong reaction, the reach of these limitations should not be overestimated; while they will prune the current shape of our economic activities of some of its most egregious injustices, no wholesale remaking of the economic landscape will be required, for the limits I will propose are likely to be breached only rarely. In the overwhelming majority of cases, implementation and enforcement of my theory of exploitation will require only minor administrative changes to the way we currently do business; in most cases, only the most extreme versions of ordinary transactions will be subject to more substantial interference and revision.

There is one kind of transaction, however, that will be subject to substantial supervisory regulation, and this is any transaction that is a form of what I call pure speculation, whether this involves purchases of real estate for quick resale, the trading of certain kinds of options on recognized stock or commodities exchanges, or the currently unregulated sale and purchase of various exotic derivatives such as the by now infamous credit default swap. Some of these transactions are wholly or at least substantially driven by good business reasons, at least on one side, but many are motivated by pure speculation on both sides. Such purely speculative transactions, it should by now be clear, are at least partially and most likely substantially responsible for the worldwide economic collapse that we recently experienced, and there is little economic reason to permit them, despite the spin put on these activities by those who profit from them. But whatever we may think of the economic effect of these activities, what I will show is that there is no moral basis to allow them. What I will show is that purely speculative transactions are necessarily exploitive, and therefore can and should be banned, regardless of the economic arguments that can be made for them.

Another major policy implication of the theory of exploitation I shall develop in this book has to do with the federal estate tax. One of the things my theory does is justify the imposition of such a tax, although with generous exemptions that leave it applicable only to the wealthiest individuals. Under my theory, as in the past, almost all estates would pass tax free. But the huge concentrations of wealth that the elimination of the estate tax would allow and which some have gone to great lengths to protect simply cannot be justified, for reasons that I will go on to describe in great detail. Indeed, if we actually believe in what both liberalism and capitalism necessarily demand, the inheritance of such large concentrations of wealth should and must be banned, or at least so I shall argue.

Finally, the theory of exploitation I will develop in this book has some implications for the problem of climate change. Indeed, what I hope to show is that many of the disputes that have currently paralyzed our efforts to deal effectively with this problem can be avoided if we focus on the nature of the transactions that can produce climate change rather than on these transactions' cumulative effects. By treating climate change as a global problem that requires a global solution, we must overcome what have so far proved to be insurmountable obstacles to coordinated collective action. But using the moral transactional analysis that my theory of exploitation allows us to develop and refine, I will argue that we can avoid these obstacles. What I will argue is that we have an obligation to take various preventative and remedial actions now with regard to climate change regardless of what others do, for such actions are in fact required not merely by general principles derived from concepts such as the common good but also and in this case more importantly by the rights against exploitation of living individuals.

If these various proposals seem rather radical, either in whole or in part, I assure you that they are a lot less radical than they seem. For within these (what in theory may seem like very strict but in practice will be very broad) moral limits on economic activity, limits that touch upon only the most extreme types of market transactions, I will argue that the market should be left free to operate. Indeed, nothing I will say in this book requires us to abandon any of our core beliefs or add to them in any way. My argument is that the principles we already accept limit but do not prohibit economic inequality, and that if we simply do as they require, a few may lose some special privileges that they currently enjoy but which they have obtained wrongfully and in any case do not deserve, while the vast majority of us will finally be able to live the kind of economically stable and rewarding lives that liberal capitalism promises to everyone and is currently in a position to actually deliver.

To develop these arguments, I will construct my theory of exploitation using two tools or concepts: the just price, and intolerable unfairness. The first has a long history; indeed, like many concepts in law, politics, and philosophy, the idea of the just price can trace its roots back to the ancient Greeks. The concept of intolerable unfairness, in contrast, is a more modern concept, one largely of my own invention, but as I hope to eventually make clear, it is what makes my theory liberal—it is the interaction between toleration—a key element of liberalism under almost every definition of that concept—and the reconceived notion of the just price I shall develop that will allow us to create a conception of exploitation that will regulate but not prohibit economic inequalities within a capitalist society.[58] In making my argument, then, I will proceed as follows. In Chapter 1, I will offer a working definition of my conception of exploitation, briefly describe its limits, and place that conception in some context by comparing it to the conception of exploitation employed by Marx and certain others as well as to the broader conceptions of economic justice employed by some of the most influential political theorists of today. In Chapter 2, I will discuss the doctrine of the just price, describe its historical rise and fall, and explain how it is connected to the concept of exploitation. In Chapter 3, I shall take the various limits on my theory of exploitation that I mentioned in Chapter 1 and discuss these in much greater detail, paying particular attention to how conceptions of gift and exchange, commodification, legality, capacity, voluntariness, and value relate to my conception of exploitation. In Chapter 4, I shall discuss the critical element of price, and develop a new, objective, cost-of-production-based conception of what makes a price unjust. Chapter 5, then, is one of the most critical chapters of the book, for this is where I shall discuss the concept of intolerable unfairness and show how we can use this concept to limit what would otherwise be the uncomfortably broad implications of a cost-of-production-based concept of the just price in an avowedly capitalist state. Chapter 6 takes the more theoretical points I have developed in the first five chapters of the book and connects these to a variety of concrete issues of public policy, and demonstrates how my theory of exploitation might be implemented and enforced without imposing untoward shocks on our economic system or disrupting ordinary economic life in any deleterious way. Finally, in Chapter 7, I shall close the book by arguing that the various theoretical and practical recommendations I make throughout the work can be readily embraced by adherents of a wide variety of comprehensive moral and political theories on both the left and the right. I shall also discuss the overall relationship between exploitation as I have defined it and economic inequality, and offer some final reflections on both the degree of inequality my theory of exploitation would allow and the demographics of any economic inequality that would obtain in a liberal capitalist society in which the policies suggested by my theory of exploitation were implemented and enforced.

[58] For an extended discussion of the concept of intolerable unfairness, although in a slightly different context, see my *Punishment, Compensation, and Law: A Theory of Enforceability* (Cambridge: Cambridge University Press, 2005), 151–9.

Before I embark on my exploration of the concepts of exploitation, the just price, and intolerable unfairness, however, there is one preliminary point I want to emphasize. While the theory I shall develop and present in this book is a theory of distributive justice, it is not a *comprehensive* theory of distributive justice. By that I mean it is intended to apply only to the distribution of wealth and income, and within that narrow area of concern, the area of economic justice, only to the distribution of wealth and income resulting from exchange transactions. With regard to the distribution of rights, liberties, and opportunities, and with regard to whether we have obligations to provide financial assistance to the poor, the injured, the ill, the handicapped, and the unemployed, it is silent. But what I have to say about exchange transactions will have substantial ramifications for and a significant effect on these other important distributive questions. Accordingly, my theory is not neutral with regard to the question of whether these other aspects of our social life are appropriate matters for moral concern. On the contrary, my theory is specifically designed to work within a wider liberal theory of distributive justice. There are a number of possible theories that would fit this bill, and between members of this group my theory of exploitation is indeed neutral, but I do assume that we have already accepted some conception of liberalism as one of the background conditions under which my theory of exploitation is to operate.

Because liberalism is itself a rather broad concept, however, I want to say a little more about it here. In common speech, the word "liberal" is often used as a shorthand way of referring to a set of substantive political positions that are typically associated with the moderate left. Used in this sense, the word "liberalism" refers to any political theory or program dedicated to the elucidation and promotion of these particular leftish concerns. But that is not how I will be using the word. On the contrary, I will be using the word "liberalism" to refer to a collection of fundamental presuppositions or concepts that provide the background constraints within which a certain kind of political life can take place. While I will not say much in defense of my definition of liberalism here, for purposes of this book I will take liberalism to encompass the following beliefs: that government should be neutral toward and tolerant of different conceptions of the good, that religious and political authority do not mix well and should accordingly be kept separate; that government should respect the liberty of its citizens and the rule of law even when faced by threats to its authority or to national security; that the best route to scientific truth is to be found in reason, in the dispassionate and rational evaluation of empirical evidence and the use of deductive and inductive argument, rather than in faith; that the individual rather than the community is the fundamental social unit, and while the value of community is important, it is important only as means to individual self-realization, and not as an end in itself; that all members of a political community should have an opportunity to participate in political decision-making and be provided the information and education necessary to responsibly take advantage of this opportunity; that the purpose of public discourse and debate is to persuade others of the rightness of one's position by resorting to arguments that one's opponents cannot reasonably reject; that all people have equal intrinsic moral worth; and that at least within one's own community, government should treat everyone's interests with equal concern and respect.

I do not deny that some of these presuppositions may be more important than others, or that some could perhaps be folded into or derived from other, more fundamental presuppositions, or that there may be some that I have improperly included or left out. I do not contend that my list is necessarily exhaustive or reduced to only its most fundamental components. And of course, there are many ways each of these presuppositions can be cashed out. Depending how they are cashed out (both broad and narrow conceptions of each presupposition are possible, as well as everything in between), liberals can derive a wide variety of conflicting policy proposals from these presuppositions while at least arguably staying faithful to their fundamental overriding concerns. Accepting my list of presuppositions, therefore, does not tell us what a liberal society should do—it merely gives us a very general description of the kinds of concerns that liberal societies take seriously and the way they approach and frame certain questions for moral debate. And of course, no society fully lives up to any of these presuppositions in practice no matter how committed it is to them in theory. Rather than a set of necessary and sufficient conditions for a society to be properly characterized as liberal, these presuppositions are simply a common set of aspirations that liberal societies typically embrace but satisfy in varying degrees. While the wholesale rejection of a majority of these presuppositions would suggest a society's commitment to liberalism should be questioned, I think it is safe to say that under this broad definition all the developed capitalist democracies would qualify as systems in which some conception of liberalism currently prevails.

I shall often refer to this conception of liberalism as *political* liberalism, a term also used by Rawls.[59] But when I am using this term I am doing so only to distinguish the category of political theories I have in mind from theories of *economic* liberalism, the view that the best way to promote economic development and general economic welfare is to remove the fetters from a private-enterprise economy and leave it alone.[60] So while I will be using a term that Rawls does, I do not mean to suggest that my theory assumes we have

[59] See John Rawls, *Political Liberalism*, 2nd edition (New York: Columbia University Press, 2005).

[60] See Joseph A. Schumpeter, *History of Economic Analysis* (Oxford: Oxford University Press, 1954), 394.

necessarily adopted the Rawlsian view as to precisely what political liberalism entails. On the contrary, any conception of liberalism of the political sort will do, including at least some forms of libertarianism and even traditional (as opposed to neo) conservatism. The only *political* theories I mean to exclude are theories of a *perfectionist* nature; that is, theories that embrace a specified comprehensive set of substantive moral values and contend that we should organize our political and social life in such a way as to ensure that all the members of our community embrace these values. The kind of perfectionism I mean to exclude is accordingly not *moral* perfectionism—a vision of the ideal life for a person, for everyone, including liberals, has such a vision. On the contrary, what I mean to exclude is *political* perfectionism, a vision of a very specific kind of ideal society, one where state power is used to ensure the creation and proliferation of a certain type of ideal person. For my purposes, then, perfectionism is to be understood as a certain kind of teleological theory, one that defines the good by reference to a particular view of communal excellence and makes achievement of this good the central goal of political life.

Note that the definition of perfectionism that I have offered is similar but probably broader than that employed by Rawls, for Rawls may not have intended to include conceptions of perfection that are theologically based within his definition, but only those that are based on theories of human nature or culture.[61] Under my definition, there is no such limitation, and perfectionism can be (and often is) theologically based. Note also that the kind of perfectionism I have in mind is sometimes referred to as *hard* perfectionism, which is to be distinguished from *soft* perfectionism (also sometimes called liberal perfectionism), a view advocated by Joseph Raz, Steven Wall, Thomas Hurka, George Sher, the so-called communitarians, and many others. Unlike hard perfectionists, soft perfectionists reject some presuppositions of modern liberalism, such as neutrality, but embrace others, such as toleration, or at least claim they do. Their commitment to the use of state power to create and to maintain their particular vision of an ideal society therefore purports to be stronger than that of more traditional liberals, but weaker than that of hard perfectionists. Because of this, even soft perfectionists would be considered liberals under the broad view of liberalism I am taking here. Only those who qualify as hard perfectionists would be excluded.

As an historical matter, the most common expression of political perfectionism to have actually held national power somewhere in the world is communism, but there are other significant forms of political perfectionism as well, such as those associated with various forms of politically-directed

[61] See John Rawls, *A Theory of Justice* (Cambridge, MA: Harvard University Press, 1971, rev. ed. 1999), at 22.

religious fundamentalism, including, of course, radical Islamic fundamentalism, a version of which currently holds power in Iran. American neoconservatism may also be flirting with perfectionism, for while neoconservatism is both virulently anti-communist and anti-Islamic fundamentalist, at a higher level of abstraction it shares these other movements' rejection of many if not all the presuppositions of political liberalism. But the purpose of this book is not to attempt to defend political liberalism from neoconservative or other forms of perfectionist attack—that task I have undertaken elsewhere.[62] I shall simply take political liberalism as given, and therefore as providing the pre-existing superstructure within which any theory of economic justice must fit if it is to provide practical guidance on how wealth and income should be distributed in the kind of capitalist society in which we currently live.

Having said something about political liberalism and how my use of that term should be understood, I should also say something about what I mean by capitalism. Helpful definitions of capitalism, however, are curiously hard to come by. In his monumental work on the history of economic thought, Joseph Schumpeter characterizes most definitions of capitalism as surprisingly vague.[63] Indeed, definitions of capitalism can range from being quite thin to quite thick, the latter being packed with all sorts of political propositions that in effect make capitalism a political theory as well as an economic one. This is not to say that even a purely economic theory of capitalism would not have some political ramifications (Marx, among others, shows how it would), but we already have a political theory—political liberalism—to give us political direction, so our conception of capitalism should at least avoid incorporating any expressly political presuppositions. For our purposes, then, a rather thin definition of capitalism should suffice. The precise scope of the political limits that should be impressed upon capitalism will then depend on how one cashes out the various theories that make up political liberalism (including traditional conservatism and right and left libertarianism), and I shall spend a great deal of time discussing this, but I shall do so separately, not as a matter of presupposition. I will accordingly take capitalism to include only the following presuppositions: that property may be acquired, transferred, and privately owned; that the bulk of the means of production are to be held in private hands; that resources and other factors of production should be allocated and exchanged through the workings of competitive markets wherever possible rather than by central planning; that the role of government with regard to the day-to-day management of the economy is therefore primarily to police such markets for fraud, theft, anti-competitive, and other wrongful

[62] See Mark R. Reiff, "The Attack on Liberalism," in *Law and Philosophy*, ed. Michael Freeman and Ross Harrison (Oxford: Oxford University Press, 2007), 173–210.

[63] See Schumpeter, *History of Economic Analysis*, 78.

behavior rather than to make substantive allocative decisions itself; that people need economic incentives to be maximally productive; and finally, that maximizing economic productivity is the ultimate goal of capitalism, and all of the preceding presuppositions are to be interpreted with this in mind.

These presuppositions, I think it is fair to say, are present in all liberal capitalist societies and in plenty of non-liberal capitalist ones as well. And while we might quibble about whether any further presuppositions should be added to this list, it seems that these are enough if what we are trying to do is capture what these various capitalist systems have in common. More presuppositions would likely make our definition too controversial; less would make it unrepresentative and seriously incomplete. Of course, as I stated with regard to political liberalism, it might be possible and perhaps even desirable to raise some moral objections to one or more of these presuppositions, but that is not what I intend to do here. Because we are constructing a theory of economic justice for the liberal capitalist state, I shall simply take these presuppositions as given, and endeavor to construct a theory of economic justice that works within the framework that these presuppositions provide. Whether capitalism itself can be morally justified is accordingly a debate that I will assume has already taken place.

What is still up for debate is what justice requires within the presuppositions that allow the liberal capitalist state to exist. What do these presuppositions require us to do, if anything, about the distribution of wealth and income in our society? Obviously, given the degree of economic inequality we that are experiencing today, it is worth thinking about whether all is as it should be, but rest assured, this book is not designed to speak exclusively to those who already believe that something is seriously wrong with the way wealth and income is distributed in their country and need an outlet for their outrage, one that tells them what they already know or think they know or at least know they would like to hear. On the contrary, it is a sustained philosophical argument about what justice requires under the conditions in which we actually find ourselves, intended to convince not only the already converted or sympathetic but also those (indeed, especially those) who currently bristle at the idea of government interference with economic markets. What this book presents is an almost entirely positive argument for a new theory of economic justice, rather than a negative argument against the popular theories of the day. And to the extent that it includes arguments against any existing theories it takes on theories from the left and right alike. For one of the things I believe is that we have all become too comfortable with the theories of economic justice currently on offer. If we are going to move on into the future, we have to let go of theories that have not worked, or have not attracted enough popular support to be seriously tried. This is hard to do, for many of these theories, as theories go, are very appealing. They *should* work, we think, and if we can only get them right, tweak them a bit here and there, and make a serious rather than the usual half-hearted attempt to follow them, they can lead us to the Promised Land, for what they claim to be able to deliver seems to be hovering just beyond the horizon.

There is a reason, however, why these theories have not worked as well as it seems they should, and it is not just because each has to date been implemented only incompletely and inconsistently. As it turns out, the most popular theoretical approaches to the problem of economic justice do not really promote visions of an ideal world that we can approach even if not fully instantiate. Instead, they are more like interesting and thought-provoking dreams, too unconnected with reality to be reliable guides for what we should do now, but self-revealing in some sense nonetheless. We need not abandon the search for what would be ideal, of course, but we should not allow that search to monopolize our creative energies to such an extent that we cease worrying about how to deal with a world that is all too real. The job of the political philosopher is not just to theorize about a far-off world that we can reconstruct in such a way so as to make our current problems disappear, but to come up with practical ideas about what to do to address the problems that confront us in the here and now. Indeed, to paraphrase Isaiah Berlin, "we are all in trouble if the search for such ideas comes to be neglected by those whose job it is to attend to them, for we may not like the ideas that may otherwise arise to take their place."[64] Of course, the possibility that we could actually achieve economic justice has been and continues to be a dream of many, not only because the kind of extreme economic inequality we are experiencing now threatens the very viability of our democracy, equality of opportunity, and the rule of law, but also because the existence of such inequality is widely perceived as an injustice, one that diminishes us all no matter whether we are one of those who suffer because of it or one of those who benefit from its instrumental effects.[65] To achieve this dream, however, we are going to have to narrow our focus a little bit. We are going to have to stop thinking exclusively on such a grand scale and trying to develop broad principles about how to redesign our political and economic institutions, and start focusing on how to achieve economic justice given the political and economic institutions that we actually have. What we need is a theory that does not require us to abandon either of the twin towers of political liberalism and economic

[64] Isaiah Berlin, "Two Concepts of Liberty," in *Liberty*, ed. Henry Hardy (Oxford: Oxford University Press, 2002), 166–217, at 167.

[65] Indeed, a solid majority of Americans, including a majority of members of both major parties and even a majority of the rich believe that economic inequality is currently too high in America, even though many of these people also vastly *underestimate* what top earners actually make. See Page and Jacobs, *Class War?*, 34, 38, 40–1. If people were better informed about the levels of compensation the highly-compensated now enjoy, these percentages would presumably be even higher still.

capitalism on which our society currently is built. We do not need another macro-theory of economic justice that can be used to critique and then reconstruct the existing political and economic infrastructure; what we need is, but a micro-theory that has important and profound macro-effects given the infrastructure we actually have. In short, what we need is a theory that tells us how to achieve economic justice in a liberal capitalist state. It is in search of such a theory that we now set out.